

Ithaca 2018 Abstract Submission

Title

Fine wines of the Alps

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Conference Presentation

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Keywords

Fine wines, wine prices, wine investments, Alpine wines

Research Question

- 1) Is it possible to identify future investment-grade wines from “emerging regions” (Austria, Germany and Switzerland)?
- 2) Is it advisable to invest in such wines rather than well-established wines?

Methods

- 1) Estimation of indices using hedonic regressions and auction data.
- 2) Analysis of the statistical properties of these indices.
- 3) Comparison with wines from Bordeaux and Burgundy.

Results

Preliminary results suggest that:

- 1) fine wines from the Alps have outperformed Bordeaux wines.
- 2) the segmentation of the wine market provides especially interesting investment opportunities in emerging wine regions.

Abstract

Since 2000, the market for fine wines has dramatically broadened in terms of popularity, size and geographical focus. The arrival of new market players (e.g., customers from Asia, speculators, investment funds) combined with the development of the auction market and the launch of dedicated trading platforms have led to improvements in market activity and efficiency. Fine wines have also seen their status evolve and many of them are regarded at present as luxury goods or even investment assets. In parallel, wine consumers have benefited from a substantial expansion in the quantity and diversity of fine wines available to them. Nowadays one can indeed encounter wines

of outstanding quality in a number of regions in Europe, Americas, Oceania, Africa and even Asia. However, the media and big market players keep focusing most of their attention on a limited subset of wines that are produced by famous wineries located in a few world-reputed regions. Academic research has thus far followed the same route with numerous papers analyzing the prices of Bordeaux classified growths and, but less frequently, acclaimed wines from Burgundy, Champagne, California and Australia.

This “oligomania” puts other wine producing regions in the shadow of those cited above. This means that many of the wines that are regularly consumed by amateurs, connoisseurs and collectors alike have been neglected in prior research. This further implies that issues related to the dynamics of the demand for wines from different status and regions as well as carry-over effects have not been addressed thus far. Moreover, this focus on regions that are currently in strong demand reflects a short-term view, which is very much oriented towards the (recent) past. At this stage, it is noteworthy to state that Bordeaux and Burgundy have not always been at the very top of the price hierarchy. For instance, in the early 20th century, German Rieslings were more expensive than the greatest reds from France. In a similar vein, Liv-ex has included “for the first time” in the 2017 version of its list of the world-most powerful wine brands two producers from Chablis: Raveneau and Dauvissat (www.insights.liv-ex.com). Hence these two producers now officially belong to the investment-grade category. But wine amateurs have been raving about the quality of their wines for decades and their prices have already been multiplied by a factor of five to ten since 2000 – i.e. they have acquired their status long before Liv-ex recognized it. These examples illustrate the fact that while investment-grade wines might compose the visible tip of an iceberg, other segments of the wine market also deserve some consideration.

In this paper, we focus on wines that are produced in three countries located in the middle of Europe, namely Austria, Germany and Switzerland. The situation of these three countries perfectly illustrates the previous discussion: like their famous neighbors, France and Italy, they have a long-standing tradition of producing fine wines whose quality is widely recognized by consumers and experts but they nevertheless remain rather overlooked on the global wine market. In general, the wine production in these three countries is affected by the proximity of the Alps through the presence of rivers, lakes, hills and mountains, and various types of soils, which combine to result in numerous microclimates. This leads to a large diversity of wines, each having key characteristics of its region of origin. Austria is especially famous for its great whites produced from Grüner Veltliner and Riesling but the quality and the reputation of the reds (mostly Blaufränkisch and Zweigelt) are also on the rise. Long known only for their world-class Rieslings, German winemakers have managed to expand the range of their fine wines. The reputation of their Pinot Noir from Baden, Pfalz and the Ahr Valley is currently growing in popularity and quality. Switzerland has over 200 different varieties, but the best wines come mostly from Pinot Noir (in the North), Syrah and Merlot (in the South), and indigenous varieties such as Cornalin or Petite Arvine. While Austria and Switzerland can be considered as fairly small producers (they respectively rank as the 18th and 23rd wine producing countries in the world), Germany belongs to the top ten countries worldwide. It must also be noted that due to their latitudes all three countries are likely to belong to the “winners” of climate change (Ashenfelter and Storchmann, 2016).

The objective of the paper is twofold. We first analyze the price dynamics of fine wines from the three aforementioned countries over the period 2002-2017. For this, we construct price indices for the finest wines from Switzerland, Austria and Germany using data retrieved from the website of Steinfels Wine Auctions (www.steinfelsweine.ch). This dataset displays several advantages. Steinfels is one of the oldest and largest wine auction houses in Switzerland and hosts at least one auction every quarter. This combined with the status of Switzerland as a major wine auction venue in Europe warrants that the number of observations is sufficient to run robust empirical analyses. The location of Steinfels in Zurich, close to both the Austrian and German borders, further ensures that the data includes wines from all three countries considered in the present study which is not the case when examining data from large auction houses in the United States, United Kingdom or Hong Kong. In a second step, we examine the process through which wines from these three countries have gained in popularity and eventually reached the status of “luxury” or “investment-grade” wine. We use Bordeaux and Burgundy wines as benchmarks for our analyses. This allows us to gain a better understanding of status and reputation related variables on the wine market and their effect on wine prices and demand.

The contributions of this paper are relevant to both practitioners and academics. First we provide a comprehensive analysis of the market for fine Austrian, German and Swiss wines. We identify and discuss the specificities of the

most reputed wines from these three countries. Second, we model and evaluate the price dynamics of these wines since 2002. Preliminary results suggest that they have performed at least as well as many of their more famous counterparts from France. Of particular interest is their low volatility and low correlation with other wines and with traditional financial assets. This observation can be directly linked to the developing literature on the segmentation of the global fine wine market and shows the reason an interest in “emerging” wine markets can be worthwhile. Third, our paper addresses the questions of whether it is possible to identify future investment-grade wines from “emerging regions” and whether it is advisable to invest in such wines rather than well-established brands. Again preliminary results suggest that the answers to both questions are positive.